

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>District Court Funds of District No. 40, City of St. Clair Shores, Michigan</u>	County Macomb
Audit Date June 30, 2005	Opinion Date September 26, 2005	Date Accountant Report Submitted To State: December 19, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 10 South Main Street, Suite 200	City Mount Clemens	State Michigan	ZIP 48043
Accountant Signature <i>Plante & Moran, PLLC</i>			

**District Court Funds of District No. 40
City of St. Clair Shores, Michigan**

**Financial Report
June 30, 2005**

District Court Funds of District No. 40

City of St. Clair Shores, Michigan

Contents

Report Letter	I
 Basic Financial Statements	
Governmental Funds Balance Sheet/Statement of Net Assets - Operating Account	2
Statement of Governmental Fund Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities - Operating Account	3
Budgetary Comparison Schedule - Operating Account	4
Statement of Net Assets - Fiduciary Funds	5
Notes to Financial Statements	6-8



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Independent Auditor's Report

To the Honorable Judges
District Court No. 40
St. Clair Shores, Michigan

We have audited the accompanying basic financial statements of District Court Funds of District No. 40 (a component unit of the City of St. Clair Shores, Michigan) as of June 30, 2005 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the management of District Court Funds of District No. 40, City of St. Clair Shores, Michigan. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of District Court Funds of District No. 40, City of St. Clair Shores, Michigan as of June 30, 2005 and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

District Court Funds of District No. 40 has not presented a management's discussion and analysis (MD&A), which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that the MD&A is necessary to supplement, although not required to be a part of, the basic financial statements.

Plante & Moran, PLLC

September 26, 2005

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District Court Funds of District No. 40

City of St. Clair Shores, Michigan

Governmental Funds Balance Sheet/Statement of Net Assets

Operating Account

June 30, 2005

	Operating Account - Modified Accrual Basis	Adjustments	Statement of Net Assets
Assets - Due from District Control Unit	<u>\$ 2,639</u>	<u>\$ -</u>	<u>\$ 2,639</u>
Liabilities - Bank overdraft	<u>\$ 2,639</u>	<u>\$ -</u>	<u>\$ 2,639</u>

District Court Funds of District No. 40

City of St. Clair Shores, Michigan

Statement of Governmental Fund Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities Operating Account Year Ended June 30, 2005

	Operating Account - Modified Accrual Basis	Adjustments	Statement of Activities
Revenue			
Funding from District Control Unit	\$ 279,939	\$ -	\$ 279,939
Interest	<u>77</u>	<u>-</u>	<u>77</u>
Total revenue	280,016	-	280,016
Expenditures			
Office supplies	38,802	-	38,802
Operating supplies	11,665	-	11,665
Services	109,509	-	109,509
Phones and communications	23,692	-	23,692
Travel	87	-	87
Printing	14,423	-	14,423
Utilities	4,662	-	4,662
Repairs and maintenance	55,362	-	55,362
Rentals	14,838	-	14,838
Miscellaneous	<u>6,976</u>	<u>-</u>	<u>6,976</u>
Total expenditures	<u>280,016</u>	<u>-</u>	<u>280,016</u>
Excess of Revenue Over Expenditures/ Change in Net Assets	-	-	-
Fund Balance/Net Assets - Beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance/Net Assets - End of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

District Court Funds of District No. 40

City of St. Clair Shores, Michigan

Budgetary Comparison Schedule Operating Account Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenue				
Funding from District Control				
Unit	\$ 312,550	\$ 305,550	\$ 279,939	\$ (25,611)
Interest	-	-	77	77
Total revenue	312,550	305,550	280,016	(25,534)
Expenditures				
Office supplies	40,000	40,000	38,802	1,198
Operating supplies	34,050	34,050	11,665	22,385
Services	88,500	88,500	109,509	(21,009)
Phones and communications	34,000	34,000	23,692	10,308
Travel	500	500	87	413
Printing	15,000	15,000	14,423	577
Utilities	9,000	9,000	4,662	4,338
Repairs and maintenance	60,000	59,500	55,362	4,138
Rentals	21,000	14,500	14,838	(338)
Miscellaneous	10,500	10,500	6,976	3,524
Total expenditures	312,550	305,550	280,016	25,534
Excess of Revenue Over Expenditures	-	-	-	-
Fund Balance - Beginning of year	-	-	-	-
Fund Balance - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

District Court Funds of District No. 40

City of St. Clair Shores, Michigan

Statement of Net Assets

Fiduciary Funds

June 30, 2005

	Agency Funds	
	Bond Account	General Account
Assets - Cash and cash equivalents (Note 3)	<u>\$ 104,825</u>	<u>\$ 563,319</u>
Liabilities		
Due to:		
District Control Unit	\$ -	\$ 411,482
Macomb County	-	70,761
State of Michigan	-	6,865
Refundable bonds	104,825	-
Garnishments, restitution, and other	-	74,211
Total liabilities	<u>\$ 104,825</u>	<u>\$ 563,319</u>

District Court Funds of District No. 40

City of St. Clair Shores, Michigan

Notes to Financial Statements
June 30, 2005

Note I - Significant Accounting Policies

The accounting policies of District Court Funds of District No. 40, City of St. Clair Shores, Michigan (the "District Court") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The District Court is governed by two elected judges. There are no component units.

The following is a summary of the significant accounting policies used by District Court Funds of District No. 40:

The District Court's basic financial statements present combined governmental fund modified accrual financial statements and government-wide full accrual financial statements.

The government-wide full accrual financial statements (the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period, generally collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

As of and for the year ended June 30, 2005, no adjustments were necessary in order to arrive at the government-wide full accrual financial statements.

The District Court has elected not to present a management's discussion and analysis.

The District Court of the City of St. Clair Shores, Michigan is a component unit of the City of St. Clair Shores, Michigan (the "City") and is included in the basic financial statements of the City at June 30, 2005.

The operating account of the District Court is a governmental fund. The financial activities of the fund are limited to collection of subsidies from the City of St. Clair Shores General Fund and payment of expenditures.

District Court Funds of District No. 40

City of St. Clair Shores, Michigan

Notes to Financial Statements
June 30, 2005

Note 1 - Significant Accounting Policies (Continued)

The bond and general accounts of the District Court are Agency Funds. The financial activities of the funds are limited to collection of amounts that are subsequently returned or paid to third parties. The funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Note 2 - Court Operations

The payroll costs relating to the operation of the District Court are a budgeted item of the City of St. Clair Shores, Michigan General Fund and, accordingly, such costs are paid by the City's General Fund. All other costs are paid from the operating account of the District Court.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes the District Court to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The District Court is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The District Court has designated one bank for the deposit of its funds. The District Court's deposits and investment policies are in accordance with statutory authority.

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District Court's deposits may not be returned to it. The District Court does not have a deposit policy for custodial credit risk. At year end, the District Court had approximately \$487,000 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The District Court believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the District Court evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

District Court Funds of District No. 40

City of St. Clair Shores, Michigan

Notes to Financial Statements
June 30, 2005

Note 3 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Bank investment pool	\$ 97,743	AAA	Standard and Poor's

Note 4 - Budget Information

The budget of the operating account is prepared by the District Court management and adopted by the city council; subsequent amendments are approved by the city council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2005 has not been calculated. During the year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget has been adopted on a total expenditure basis, which reflects the District Court's activity; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. The budget statement has been presented on a line-item basis for informational purposes.

Note 5 - Risk Management

The District Court is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The District Court is a component unit of the City of St. Clair Shores and all risks of loss are borne by the City.

September 26, 2005

To the Honorable Judges of District
Court No. 40
District Court Funds of District No. 40
27701 Jefferson Avenue
St. Clair Shores, MI 48081

Dear Judge Fratarcangeli and Judge Oster:

We have recently completed our audit of the District Court Funds of District No. 40, City of St. Clair Shores, MI for the year ended June 30, 2005. In addition to our audit report, we offer the following comments and recommendations for your consideration:

Bank Reconciliations

Sound internal controls include the reconciliation of bank accounts from the bank statement to the general ledger on a monthly basis. During the course of our audit, we noted that all of the District Court's bank reconciliations had differences ranging from approximately \$90 to \$18,100 that were not reconciled or resolved. The monthly reconciliation of bank accounts helps ensure that accurate financial information is available on a timely basis and serves as one of the most important aspects of the internal control environment. In addition, we noted that bank reconciliations generally were not subject to a supervisory approval after preparation. Review and approval of the bank reconciliations will not only assist in identifying errors but will also improve the segregation of key accounting duties among the District Court staff. As you are likely aware, appropriate segregation of job responsibilities is the foundation for a sound system of internal control and is also a primary tool in the prevention of fraud.

We recommend that the District Court implement procedures to ensure that all differences identified in the bank reconciliation process are resolved and that the functions of District Court personnel be revised to permit the review of bank reconciliations after completion.

Bond Subsidiary Ledger Reconciliation

During our testing of the bond account, we noted that the bond subsidiary ledger (open bond listing) did not agree to the cash balance of the bond checking account and the amount reported in the general ledger. The District Court administrator has indicated that the bond checking account balance is correct and that the open bond listing has not been appropriately updated. We recommend that the District Court implement procedures to reconcile the open bond listing to the correct balance and to create a methodology for reconciling the listing on a monthly basis.

To the Honorable Judges of District
Court No. 40
District Court Funds of District No. 40

2

September 26, 2005

We would like to thank the District Court for the opportunity to serve as auditors. If you would like to discuss any of these matters further or would like assistance in the implementation of changes, please contact us.

Very truly yours,
Plante & Moran, PLLC

A handwritten signature in black ink that reads "David V. Grubb". The signature is written in a cursive, flowing style.

David V. Grubb

cc: Mr. Kenneth Podolski
Mr. Timothy Haney